

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6656**

**BILL NUMBER:** SB 324

**NOTE PREPARED:** Jan 17, 2012

**BILL AMENDED:**

**SUBJECT:** Income Tax Deductions.

**FIRST AUTHOR:** Sen. Landske

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill increases the income tax deduction for federal civil service annuity income received by an individual or the individual's surviving spouse from \$2,000 to the first \$25,000 of federal civil service annuity income for an individual and the first \$32,000 for a husband and wife who both receive income from a federal civil service annuity. The bill also caps the income tax deduction for Social Security and railroad retirement benefits at these amounts and makes technical corrections. (The current deduction is 100% of these benefits.)

**Effective Date:** January 1, 2013.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the deduction for civil service annuities and certain social security benefits. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** *Summary* - The bill makes changes to the adjusted gross income (AGI) tax deductions for civil service annuity income, social security benefits, and railroad retirement income. It is estimated that the annual revenue loss from these changes could potentially total \$11.5 M beginning in FY 2014.

The bill makes the following changes:

(1) increases the deduction for federal civil service annuity pay from \$2,000 to \$25,000 for individual filers

beginning in tax year 2013;

(2) provides that the \$25,000 deduction also applies to a surviving spouse beginning in tax year 2013;

(3) increases the deduction for federal civil service annuity pay from \$2,000 to \$32,000 for joint filers who both receive income, provided the joint filers are both at least 62 years old; and

(4) caps the deduction for social security benefits or railroad retirement income included in federal adjusted gross income at \$25,000 for individual filers and \$32,000 for joint filers.

The estimated net revenue impact of these changes is reported in the table below. Since the deduction change starts in tax year 2013, the revenue loss would commence in FY 2014. The revenue loss could remain relatively flat or grow by as much as 2.7% annually thereafter.

<b>Provision</b>	<b>Revenue Impact (in millions of dollars)</b>
Increase in civil service annuity deduction for retirees	(11.0)
Civil service annuity deduction for surviving spouses	(1.9)
Cap on deduction of social security benefits	1.1
Cap on deduction for railroad retirement income	0.2
<b>Net Impact</b>	<b>(11.5)</b>

***Background Information*** - Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction is equal to the difference between \$2,000 and the total amount of Social Security or railroad benefits received by the taxpayer. In 2009, 4,237 taxpayers deducted approximately \$7.3 M in civil service annuity pay from their AGI. This amount resulted in a revenue loss of about \$248,000. Based on the current deduction limits and recent annual growth in the deduction, the revenue loss for FY 2013 is estimated to range from \$248,000 to \$269,000.

Data from the U.S. Office of Personnel Management indicates that there were about 26,000 federal retirees and about 8,000 surviving spouses of federal retirees residing in Indiana. The federal retirees received about \$707 M in annuity payments and surviving spouses received about \$118.5 M in annuity payments during 2010. The average payment to a federal retiree was about \$27,500 and the average for surviving spouses was about \$15,000. The total payments to retirees and their spouses in Indiana increased, on average, 4% over the past 10 years. In contrast to the average civil service and survivor's annuities, data from the Social Security Administration indicates that the average annual benefit for male retirees is \$15,867 and for female retirees is \$12,276.

Relative to social security benefits and railroad retirement income paid to Indiana taxpayers, in 2009, 7,787 taxpayers deducted social security benefits and 696 taxpayers deducted railroad retirement income in excess of the deduction caps specified by the bill. The estimated revenue gain from these caps is based on the excess income deducted by these taxpayers.

The estimate related to the civil service annuity deduction assumes that those taxpayers currently claiming the

\$2,000 deduction (4,237 taxpayers) will be able to claim the entire increase in the deduction provided by the bill. It also assumes that an additional 20,687 civil service annuitants not claiming the deduction currently will be able to claim part or all of the increased deduction provided by the bill. The estimate relating to surviving spouses assumes that survivor's benefits and social security payments to these individuals are distributed similar to civil service annuitants.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.4%, LOIT collections on a statewide basis could potentially be reduced by about \$4.7 M annually beginning in FY 2014.

**State Agencies Affected:** DOR.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** U. S. Social Security Administration, *Social Security Online - Beneficiary Databases*, <http://www.ssa.gov/OACT/ProgData/beniesQuery.html>. OFMA Income Tax Databases, 1996-2009; Data on Federal Civil Service Annuitants in Indiana, U.S. Office of Personnel Management.

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